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November 21, 2005

Commissioner John Geesman, Presiding Member
Commissioner Jackie Phennensteil, Member
Renewables Committee
California Energy Commission
Ninth Street
Sacramento CA 95814

RE: Draft 2006 Renewable Energy Investment Plan – Docket# 00-REN-1194

Dear Commissioners:

The California Biomass Energy Alliance (CBEA) is pleased to provide the following comments on the Staff Draft *Renewable Energy Investment Plan*. We are gratified to see that the Plan recognizes the special benefits provided by biomass energy production front and center on the second page of the Executive Summary (ES-2). However, CBEA is concerned about the major shifts among the various renewables accounts, and questions some of the justification provided. For example, if one of the goals of the program is to support the solid-fuel biomass industry, it does not make sense to reduce the allocation of funds that are available for solid-fuel biomass generators, particularly not when it appears that several eligible but currently idle facilities might restart, increasing the amount of biomass energy production that is chasing the funds in the account.

One of the core principles underlying the state's renewable energy programs since the beginning of restructuring has been that the overall program should not favor particular renewable resources or technologies. Even though this is a challenge for biomass, as biomass is typically not the lowest-cost renewable, the biomass industry has consistently supported this principle. Indeed, our multi-year pursuit of cost-shifting strategies is precisely our effort to increase the competitiveness of biomass as an electricity producer by seeking outside consideration for the non-electric benefits. Our concern is that the current draft of the *2006 Renewable Energy Investment Plan* violates the principle of renewables-neutrality by clearly favoring PV technology over all of the other renewable alternatives in the marketplace, even over others in its own category (distributed, emerging). We urge the Commission to rethink this policy of favoritism, and restore balance to the overall distribution of funds among accounts.

CBEA does strongly support granting the Commission sufficient flexibility to transfer funds among accounts as future program needs and trends emerge. It is a far superior approach to maintain continuity in the program, but allow the flexibility to bulk up the

emerging account if there are surplus funds available in other accounts, rather than reduce those accounts irreversibly now on the basis of current market conditions that could change over the course of the lifetime of this Plan.

Below are CBEA's specific comments and suggestions on Chapter 4, **Existing Renewable Facilities Program**.

The second paragraph on page 27 of Chapter 4 of the Plan states that there are "1,000 MW of [biomass] generating capacity" in California. This is not quite correct. The plan should be corrected to note that currently there are approximately 600 MW of solid-fuel biomass generating capacity operating in the state, and almost 250 MW of biogas, although the biogas generators are not part of tier I, and do not receive incentives from the ERFP. In addition, there are more than 100 MW of idle biomass power plants in California, half of which shut down for economic reasons since the state energy crisis.

The paragraph continues: "When properly configured to control nitrous oxide emissions and minimize the environmental impacts of transporting waste materials used as fuel, biomass has strategic value ..." We wish to make clear that all of the biomass power plants that operate in California do so under strict regulatory oversight, including following all required environmental controls, or face the consequences. It should be noted in this document that extensive research has demonstrated that biomass power plants actually significantly reduce emissions of NOx to California's air because controlled combustion is so much cleaner than open burning of the same biomass.[1] In addition, the biomass industry reduces the amount of material entering the state's landfills, and supports fire-risk reduction treatments in the state's forests.

The section entitled **Policy Context** (pages 27 – 28) discusses the fact that the original intent of AB 1890 was that over a four-year transition period, support payments for solid-fuel biomass generators would be phased out in favor of cost shifting measures, which would provide generators with some form of compensation or credit for the ancillary benefits of biomass energy production outside of the electric customers. It is very important to note in this document that, in fact, cost shifting has never happened, and the ERFP payments to the solid-fuel biomass generators are the only form of consideration they receive for the valuable ancillary benefits they provide. These have been determined to be worth greater than ten cents per kWh.[2]

Later in the section on **Policy Context**, in discussing the topic of greenhouse gas emissions (middle of page 28), the Plan asserts that: "biomass is considered to have a net zero effect on carbon dioxide emissions. If fossil fuels are used to transport biomass, then a net increase in carbon dioxide emissions results." This simplistic approach to understanding the greenhouse gas implications of biomass energy production completely

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[1] Morris, G., The Environmental Costs and Benefits of Biomass Energy Use in California, NREL Report No. NREL/SR-430-22765, May 1997.

[2] Morris, G., *The Value of the Benefits of U.S. Biomass Power*, NREL Report No. NREL/SR-570-27541, November 1999.

misses the point, and reaches a conclusion that is incorrect. This statement should be corrected to note that, in fact, the real effect on greenhouse gas emissions of biomass energy production is a significant reduction in greenhouse gases due to shifts in the ratio of carbon that is emitted as methane and hydrocarbon vs. CO_2 from controlled combustion, as opposed to alternate disposal of the biomass, protection of the stock of fixed (sequestered) carbon in the state's forests by improving their fire resilience, and offset of fossil fuel use.[3]

CBEA opposes the 50% reduction in the allocation of funds to the existing renewables account. We believe the remaining 10% of total program funds are not sufficient to properly support the existing biomass and solar-thermal power industries, which both continue to be worthy of support in accordance with California Public Utilities Code Sections 383 (b) and 383 (c):

> § 383 (b) Supporting the operations of existing renewable resource generation facilities which provide fire suppression benefits, reduce materials going into landfills, and mitigate the amount of open-field burning of agricultural waste.
>
> § 383 (c) Supporting the operations of existing, innovative solar thermal technologies that provide essential peak generation and related reliability benefits.

The Plan notes, under **Recent Incentive Payments to Eligible Existing Renewable Energy Facilities**, that the solid fuel biomass plants were paid about $16 million in CY 2003, and About $17 million in CY 2004. But the recommended allocation for 2006 and future years is $14 million or less. In times of ever-increasing plant operating costs, cutting the solid fuel biomass plant allocation will result in increasing curtailments of generation, thus defeating the very purpose of the "off-peak hours" subsidy, which was to keep the plants running as much as possible to maximize the environmental non-electric benefits of use of the waste fuels.

CBEA does not agree with the section on page 29 of the Plan, titled **Recent RPS Contracts for Solar Thermal and Solid-Fuel Biomass**. It makes the argument that because California utilities have recently signed contracts for new solar thermal generating projects that do not require incentive payments from the NRFP, therefore old, amortized solar-thermal generators should have even lower costs of production, and no longer deserve ERFP payments. This is flawed reasoning. On the one hand, the new contracts are for technologies that are still in the pre-commercial stage of development. The successful fulfillment of these contracts is far from assured. Moreover, regardless of whether these new contracts are eventually proved-out, the existing solar-thermal generators are today no different than they were yesterday, and if they were deserving of incentive payments during 2002 – 2005, they continue to be deserving into the foreseeable future, based on the same programmatic parameters. Their production costs will not change as a result of the advancement of Stirling Energy's dish / Stirling

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[3] Morris, G., *Biomass Energy Production in California: The Case for a Biomass Policy Initiative*, NREL Report No. NREL/SR-570-28805, November 2000.

technology. CBEA believes this section should be deleted in its entirety since it has no relevance on the existing Tier 1 facilities.

The next section of the *Plan*, **Estimates of Levelized Cost of Electricity for Solid-Fuel Biomass**, presents estimates of the cost of producing energy from biomass that are simply not based in the reality of the California biomass marketplace of 2005. With recent increases in labor costs and biomass fuel prices, the average cost of power production for California's existing fleet of biomass power plants is more than 7 ¢ /kWh. The average cost of production for a new biomass facility built today in California would be more than 8 ¢ /kWh. SCE and SDG&E both have PPAs for new biomass facilities for rates that are below this level, and neither project is progressing along its milestones. In addition, SCE and PG&E have PPAs for the restart of three of the state's idle biomass facilities, none of which need (or are eligible for) SEP payments. The probability of any of these projects reaching operational status is well below 100 percent. CBEA believes these number provided by Navigant are flawed and should not be cited in this document. CEC should be directed to work with the biomass industry to correct these assumptions.

In the section on page 30 titled **Federal Production Tax Credit for Open-Loop Solid-Fuel Biomass**, we wish to point out a small correction to the numbers. While it is true that existing biomass plants get half the credit, and the current credit is 1.9 cents/kWh, the IRS rounds down, so the range of credit is 0.45 to 0.90 cents, not the 0.475-0.95 range shown in the Plan. This should be corrected in the document.

The final section of Chapter 4, **Capacity Payments Support Biomass Operation in Summer Months**, argues that because biomass generators with ISO#4 contracts receive virtually all of their capacity payments during the summer period, therefore there is no need to support these facilities during the summer, since they will operate during this period in any case. This argument misses the point that capacity payments are only paid during the peak and partial-peak hours. Many biomass facilities today are reducing output during the off peak and super-off peak hours due to diesel-related increases in biomass fuel costs. Indeed, this is the very reason that the Commission is considering increasing the target price and cap for tier I payments from now until mid 2006. Typical biomass power plants can reduce their output by 50 percent or more if the marginal cost of fuel is greater than the marginal revenue during a given block of hours. CBEA believes this section should be deleted in its entirety as the argument made is flawed.

CBEA does not have detailed comments on **Chapter 2: Renewables Portfolio Standard and the New Renewable Facilities Program**, however we do have an overriding concern with the direction of the new facilities account. It is true that the early results of utility RPS solicitations have not triggered the need for the use of SEP payments, and that natural gas prices have been increasing for almost a decade, and are now augmented by the lingering effects of the recent wave of hurricanes that hit the U.S. Gulf Coast. All of that notwithstanding, we are absolutely not convinced that we can confidently conclude today that the long-term outlook is that SEPs will hardly be needed in the future. Indeed, this Commission has observed on a number of occasions that despite the enactment of the state's ambitious RPS program in 2002, and its acceleration to 20 percent by 2010 in the

Energy Action Plan, so far there has been minimal development of new renewable generating capacity in the state, and the overall renewable contribution to the state's supply has actually decreased, as a percent of the total. We believe that it is absolutely premature to make any major conclusions about the need for SEPs, and imprudent to shutout this option when it might very well be needed within the timeframe of this *Investment Plan.*

Since the inception of the Commission's PGC-funded renewables program in 1998, there has always been a tension among the various accounts (existing, new, emerging, etc.) over funding allocation. We believe that the overall goal of providing PGC funding for renewable energy development in the state always has been to reach the state's RPS goal, which currently is 20 percent renewables by 2010. As demonstrated in Table ES-1, page ES-4, of the *Investment Plan*, in the original allocation of program funds thirty percent were designated for the new renewables. The new renewables account was increased to more than fifty percent of the total program funds between 2002 – 2005. This *Plan* proposes to cut the new renewables account by 13.5 percent, and move the freed-up funds into the emerging account. The bullets on page 7 of the *Plan* show the folly of following this course of action, if indeed reaching 20 percent by 2010 is to be accomplished. The second bullet on the page shows that past programmatic payments in the new renewables account of $140 million have supported the development of 1,265 MW, a cost of $0.11 million /MW. The third bullet shows that past programmatic payments in the emerging account of $210 million have supported the development of 90 MW, a cost of $2.33 million /MW. We don't doubt the value of nurturing the PV market, but making massive raids on the other accounts in order to allocate nearly half of all programmatic funds to PV is not justified.

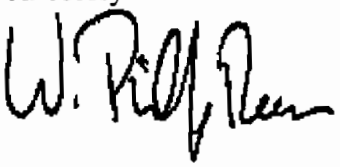
To summarize, CBEA requests the following changes be made to the Plan before it is accepted by the Renewables Committee:

1. Preserve the current allocation of funds to the Tier 1 Existing Account to benefit both the biomass and solar thermal industries.
2. Correct the numbers on page 27 to accurately reflect the number of MWs provided by the solid fuel biomass power industry in California.
3. Include additional information on page 27 related to the air quality benefits provided by the biomass industry in California along the lines provided in our comments above.
4. Include additional information on the failure of the State to provide for alternate cost shifting mechanisms, and thus ever more importance of the Existing Account for the industry.
5. Correct the statements made relating to the biomass industry's impact on CO_2 emissions along the lines provided in our comments above.
6. Delete the section titled **Recent RPS Contracts for Solar Thermal and Solid-Fuel Biomass** in its entirety as it has no relevance to the existing Tier 1 facilities.
7. Delete the numbers and citation used in the section titled **Estimates of Levelized Cost of Electricity for Solid-Fuel Biomass**, and work with the biomass industry on cost estimates that more accurately reflect real world conditions.

8. Correct the numbers reflecting the benefit biomass plants receive from the Federal Production Tax Credit for Open-Loop Solid-Fuel Biomass. CBEA believes the range of credit is 0.45 to 0.90 cents.
9. Delete the section **Capacity Payments Support Biomass Operation in Summer Months** as the arguments made are flawed.
10. Preserve the current allocation of funds in the RPS account..

Thank you for taking our comments and recommendations into consideration. If you have any questions, you may contact me or CBEA's Sacramento representative, Julee Malinowski-Ball at 441-0702.

Sincerely



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Attached are the written comments provided by the California Biomass Energy Alliance in rerference to Docket# 00-REN-1194.

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